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EFFECTS OF MERIT SALARY ADJUSTMENT AND PRICE INCREASE FUNDING PRACTICES AND UNALLOCATED REDUCTIONS MAY 2000

Introduction

Departments were subjected to substantial General Fund reductions during the early to mid-1990s. These include a one percent reduction in 1990-91, a 1991-92 "trigger" reduction averaging more than 8 percent of departments' General Fund budgets (excluding the Department of Corrections and higher education), an unallocated reduction of about 5 percent in 1991-92, and various unallocated reductions in 1992-93, 1993-94 and 1995-96. Some departments also incurred selective reductions after this period. There were reductions to managers, supervisors and administration in 1995-96. Only 15 departments received funding for the 3 percent general salary increase provided in 1994-95. The other departments were forced to "absorb" this cost. Departments did not receive funding for price increases in operating expenses or for merit salary adjustments (MSAs), though exceptions were made in some cases, e.g., for revenue-producing departments and for the Department of Corrections. These policies required departments to make many changes in their modes of operation, including administrative and program reductions. Many departments held positions vacant if there were no funds supporting the positions, though most departments eventually eliminated unfunded positions.

In its *Analysis of the 2000-2001 Budget Bill*, the Legislative Analyst notes that the State has made several unallocated funding reductions to departments' budgets and required departments to absorb various cost increases, such as the costs of price increases and MSAs. The Legislative Analyst recommended that " . . .the Department of Finance report at the time of the May Revision on the magnitude of this underfunding and strategies it would propose to address the situations." In its analysis, the Legislative Analyst states that departments have had difficulty absorbing the cost increases and suggests that some departments may not be carrying out all the responsibilities given them by the Legislature. The Legislative Analyst also suggests that departments are holding positions vacant to generate the funds needed to pay MSAs and operating expenses that have not been funded due to the State's budget policies.

This report is submitted in response to the Legislative Analyst's recommendation. The report briefly presents the most significant effects of these reductions and unfunded items on 29 large departments, as reported to the DOF during a survey administered in February and March, 2000. The survey was part of a questionnaire that asked the 29 largest departments in

State government (excluding the Public Employees Retirement System, the University of California, and the California State University) for information on vacant positions. The survey question dealing with the impact of price increase and MSA budget policies is described in the "Methodology" section that follows.

Methodology

Departments that participated in the DOF survey were asked to respond to the following question:

> *Over the last decade, the State budget generally has not included funding for price increase or merit salary adjustments, and has at times imposed unallocated reductions on departments. What have been the effects of these actions on your budget? In answering this question, please address the following four issues.*
>
> > *(a) What steps were taken by your department to compensate for these actions? How are these steps reflected in the historical expenditure data for your department? (e.g., elimination of positions, increase in salary savings, reduction in operating expenses)*
> >
> > *(b) What savings and operating efficiencies did you achieve? (e.g., price reductions in technology, move to lower cost facility, discontinuation of inefficient or low priority staffing or operational practices)*
> >
> > *(c) What, if any, were the programmatic consequences for your department? Were there any missions, responsibilities or activities that were not fulfilled or only partially fulfilled?*
> >
> > *(d) Are there any unallocated reductions that are still unallocated? If so, how have you been meeting the requirements of this reduction?*
>
> ***Answers should document specific items and quantify the magnitude of the effect (e.g., in terms of dollars and positions)****. If possible, indicate the year in which the actions were taken.*

If departments indicated that the State's price increase and MSA budget policies forced them to hold positions vacant or increase its salary savings, they were asked to describe the programmatic consequences, such as failure to meet program requirements, of such actions.

We also asked departments to provide the dollar amounts of price increase adjustments and MSAs they did not receive during the 1990s as a result of State budget policies. However, few departments were able to provide that information. Later, we asked departments to provide these amounts for the period 1994-95 to 1998-99, but again we received little usable information. Some departments that provided this information made assumptions that we considered problematic, e.g., applying an inflation "guesstimate" to their entire operating expense and equipment budget, or using a fixed percentage of their salaries and wages, based on one year's experience, to compute their annual MSA requirements. Consequently, we decided to estimate the amounts of inflation adjustments and MSAs each department would have received during the period, 1994-95 to 1998-99, based on information contained in the Governor's Budgets for those years and 1999-00. We decided to limit our analysis to the period, 1994-95 to 1998-99, because the impact of the inflation adjustment and MSA budget policies of the early 1990s is obscured by the unallocated reductions that occurred during those years.

The specific methodologies we employed to determine inflation adjustments and MSAs is described in the following sections. We believe that while the methodologies have their shortcomings (described below), they provides estimates that are consistent across departments and are consistent with the budgeting methodologies the DOF employed during the early 1980s, when departments received funding for inflation adjustments and MSAs.

Merit Salary Adjustments

Most departments reported significant impacts due to lack of funding for MSAs. However, the DOF believes that the lack of funding for MSAs alone did not have the impact that most departments believe it had. The DOF replicated the MSA calculations that would have been made for the years 1994-95 through 1998-99 and found the result was negative in 32 percent of the calculations.[1] In addition, over the five-year period, 8 of the 29 departments had enough salaries and wages savings from employee turnover that additional funding was not necessary for them to pay their required MSAs. This result was unexpected, in that virtually all departments told us that the State's budget policy relating to MSAs was causing them to hold positions vacant. However, the inconsistency between departments' perception and reality is perhaps understandable because MSA calculations have not been a required part of the budget process since the early 1980s.

On the other hand, the calculations show that 21 of the 29 departments had a net MSA need during the five-year period. In total, these departments had an MSA need of $318 million. Calculations for individual departments are displayed in Table 1. (Note: Information was not available from nine departments to properly calculate the 1994-95 amounts, which resulted in the total for these departments being overstated by about $11 million.) Six of the departments with positive MSA needs (Board of Equalization, Franchise Tax Board, Department of Corrections, Department of Developmental Services, Caltrans and Department of Motor Vehicles) received MSA funds totaling $173.7 million during the period. If this amount is subtracted from the $318 million needs of departments, the resulting unfunded MSA need over the five-year period is calculated to be $144.3 million.

[1] Of 145 calculations (29 departments x 5 years), 46 (32 percent) resulted in negative amounts, meaning that no MSA funding was needed by departments.

We note, however, that for some departments, large negative amounts in some of the years play a large role in negating the MSAs that would have been provided in other years. In reality, under the old budget policy, MSAs were funded on a year-by-year basis, with one year's MSA calculation being independent of those in prior or subsequent years. Consequently, most of the departments that had no net need for MSA funding during the five-year period would have received some funds during one or more years. On the other hand, the MSA amounts that actually would have been provided to individual departments were limited to two percent of each department's budget year salaries and wages, regardless of its needs. In practice, however, this limitation affected few departments and only in some years.

The amounts that would have been provided under the old budget policy on a year-by-year basis during the five-year period, less the amounts the departments actually were provided, are displayed in Table 2. The amounts in the table reflect the unfunded MSAs, as determined by the former budget policies, during each of the five years. The total amount of unfunded MSAs during the five-year period was $173.6 million. (Note: For nine departments, the amounts for 1994-95 may be overstated due to our inability to properly calculate the 1994-95 amounts.)

Price Increase

The DOF also estimated the amount of price increases that would have been provided to State departments from 1994-95 to 1998-99. The calculations are approximate, because the actual data that would have been used to perform the calculations for price increase adjustments were not available. For example, price increase calculations would have been applied to a budget year base of operating expenses, excluding prior-year one-time costs, equipment costs, and several other items of expense (e.g., Pro Rata, SWCAP, Board of Control claims, tort settlements, data processing expenses, and most consultant and professional services amounts). The data for departments' current year operating expenses, which are published in the Governor's Budget, are overstated by the inclusion of these excludable items. To (in part) correct for this, we used departments' 1998-99 past-year schedules of operating expenses and equipment (i.e., the "Schedule 11s") to reduce their current year budgets for each of the five years for the line items that generally do not receive price increase adjustments. However, we were unable to exclude one-time expenses. Undoubtedly, this approach understates the price increase adjustment for some departments that would have received price increases on part of their contract (i.e., consultant and professional services) expenses and overstates price increases for departments that had large one-time amounts in their current-year OE&E budgets. We are unable to determine the overall magnitude or direction of these errors.

Another limitation of these calculations is that they ignore inflation adjustments that may have been required for equipment and other items of expense that would have been addressed through budget change proposals, rather than through the inflation adjustment calculations, under the former budget policies. Consequently, the calculations may understate the fiscal impact of existing budget policies on departments that have large annual equipment replacement expenses or unusual consultant and professional services expenses.

The current-year amounts we used for the calculations also excluded reimbursements and federal funds received as grants, based on the premise that these sources can be billed at current costs. In effect, price increase adjustments often are given on federal funds and reimbursements, despite State budget policy that does not explicitly recognize price increases for budgeting purposes. However, the calculations included federal funds that must be matched by General Fund contributions.

In addition, under the price increase policies that were formerly used to adjust departments' budgets, specific price factors were developed for various items of expense. Because we did not have information on those price factors, or the specific expenses to which the price factors pertained, we were forced to apply a general price factor to all allowable items of expense. The price factor we used was the State and Local Government Goods and Services Deflator.

Finally, where we knew about a department receiving relief from the State policy relating to price increase adjustments or being given special consideration through a budget change proposal, we reduced the amount of the calculation by the funds the department was known, or estimated, to have received.

The results, shown in Table 3, indicate that the 29 departments would have received roughly $214.4 million more over the five-year period than they actually received.

Summary of Statewide Impact of Budget Constraints

Based on estimates prepared by the DOF, the State realized a savings (in all funds) of approximately $388 million from not budgeting funds for price increases and merit salary adjustments for the 29 largest departments from 1994-95 through 1998-99. Departments have accommodated the lack of funding for price increase and merit salary adjustments and the unallocated reductions in a variety of ways. The majority of the departments' actions can be grouped into five categories: reducing personnel costs; reducing operating expenses and equipment; reducing programs; increasing efficiency; and deferring expenses. The list of actions reported by the departments is not exhaustive of all the actions taken by departments because departments' records are incomplete; many departments had to rely on the memories of staff members who were involved in the various efforts to reduce expenses.

1. Eighteen departments reported one or more actions to reduce personnel costs including eliminating positions (13 departments), holding positions vacant (12 departments), increasing salary savings (3 departments), reducing overtime (2 departments), and changing staffing patterns (2 departments). Nine of the departments that reported eliminating positions also indicated the number of positions eliminated. These nine departments reported eliminating a total of 2,362 positions.

2. Eleven departments reported one or more actions to reduce costs for operating expenses and equipment. Four of these departments specified that they reduced

expenses for travel or contracts, while the remaining seven did not specify the areas reduced.

3. Thirteen departments indicated that they reduced program activities by eliminating low priority activities, closing field offices or reducing services to clients. One department, the Department of Food and Agriculture, indicated that it reduced pest surveys and later spent more than was saved to eradicate an undetected pest outbreak.

4. Thirteen departments indicated that they took actions to defer expenses, including delaying information technology enhancements, maintenance and equipment purchases.

5. Only seven departments indicated that they were able to achieve program efficiencies as a means of mitigating budget reductions.

6. Not all actions taken to reduce expenses resulted in true, ongoing savings. As noted above, the Department of Food and Agriculture spent more to eradicate a pest outbreak than it saved by reducing pest surveys. One department indicated that it chose to settle lawsuits as a means of reducing attorneys' charges. This very likely resulted in the State paying higher settlement costs than would have resulted from aggressively pursuing the State's defense for some of these cases. Other departments reported that they deferred various operating expenses. While some expenses can be deferred without any adverse consequences, deferring maintenance and equipment purchases can increase costs overall when the deferral results in a degradation of the equipment or physical plant.

Conclusion

Based on our review of individual departments' responses to our survey questions (see below), it appears that the State's budget policies on MSAs and price increases and the unallocated reductions have had relatively minor impacts on some departments and severe impacts on others. We believe this suggests an approach similar to that currently being used by the Administration, i.e., assessing the impact of the budget policies on a case-by-case basis and augmenting budgets only where a compelling case can be made for doing so.

Impact of Budget Constraints on Operations of Individual Departments

The impacts on individual departments of unallocated reductions and the State's budget policies relating to MSAs and price increases, as reported to the DOF in response to our questionnaire, are presented below. The unallocated reductions, trigger reductions, and unfunded inflation and merit salary adjustments are collectively referred to as "funding constraints." Because the Legislative Analyst, in its *Analysis of the 2000-2001 Budget Bill*, assumes that the State's budget policies for MSAs and price increases have caused departments to hold positions vacant, we include with each department's description an estimate of the amount of funding the department would have received between 1994-95 and 1998-99 for MSAs and price increase adjustments under former budget policies, the amount of excess salaries and wages savings achieved by the department in 1998-99, the amount of salaries and wages funds redirected to OE&E during 1998-99, and the change in the department's budgeted salary savings rate between 1993-94 and 1998-99. The rationale for including this information is that if departments are holding positions vacant because of the State's budget policies, it will be evident in excess salaries and wages savings, shifts of funds from salaries and wages to OE&E, or an increase in the departments' budgeted salary savings rates.

Department of Justice

The Department of Justice (DOJ) reported that the General Fund reductions of the early 1990s forced it to eliminate more than 600 positions and $25 million from its OE&E budget, resulting in severe reductions in expenditures for training, travel, equipment and facilities operations. These reductions have resulted in increased backlogs in activities performed for legal clients and criminal justice agencies. The State budget policies relating to MSAs and price increases have forced the DOJ to eliminate lower priority programs and activities, such as those operated by the Organized Crime and Criminal Intelligence Bureau and the Division of Law Enforcement's Office of Management and Training, or to fund programs through charges to clients, such as is done in the Employment, Regulations and Enforcement Section. In addition, the policies have reduced the DOJ's ability to form new task forces with local law enforcement agencies to work on specific issues, such as drug problems, nearly eliminated training, reduced travel to the bare minimum, and delayed the replacement of aging vehicles and scientific equipment in the Division of Law Enforcement.

Between 1994-95 and 1998-99, the DOJ did not receive $2.2 million for MSAs and $3.6 million for price increases because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $17.7 million. Therefore, the lack of MSA funding during this period had no net fiscal impact on the DOJ. During 1998-99, the DOJ had excess salaries and wages savings resulting from excess vacancies of $14.3 million. However, $5 million of that amount was due to federal funds and reimbursements that did not materialize. Therefore, the "real" excess salaries and wages savings resulting from excess vacancies were $9.3 million. The DOJ shifted $3.0 million from salaries and wages and $4 million from benefits to OE&E during 1998-99, and its budgeted salary savings rate increased from 5.0 percent in 1993-94 to 5.5 percent in 1998-99.

State Controller's Office

The State Controller's Office (SCO) did not report on the consequences of State budget constraints on its operations or program activities.

Between 1994-95 and 1998-99, the SCO did not receive $1.2 million for MSAs and, according to our calculations, did not receive $1.4 million for price increases because of State budget policies. However, in 1995-96, the SCO received a baseline adjustment of

$796,000 for the increase in postage rates, and in 1999-00, the SCO received an augmentation of $479,000 for unfunded rent increases from prior years. These adjustments partially offset the lack of price increase funding. During 1998-99, the SCO had excess salaries and wages savings resulting from excess vacancies of $3.1 million. However, the SCO had salaries and wages savings of more than $3.5 million attributable to reimbursement revenues and federal funds that did not materialize. Therefore, there were no "real" excess salaries and wages savings. The SCO shifted $199,000 from personal services to its operating expense and equipment budget during 1998-99, and its budgeted salary savings rate increased from 4.4 percent in 1993-94 to 8.1 percent in 1998-99.

Department of Insurance

The Department of Insurance (DOI) reports that funding constraints forced it to abolish a total of 122 positions in 1995-96 and 1996-97. (Additional positions were abolished in 1994-95, but the detail is not available for that year.) The DOI also held positions vacant to cover the costs of price increases and MSAs, which aggravated the underlying problems of vacant positions. According to the DOI, fraud investigation and rate regulation have been adversely affected. The DOI says that it has been unable to reduce the backlogs in investigations of suspected violations and in enforcement proceedings and that field examinations have been decreased, resulting in less detection of violations and prevention of insolvency.

Between 1994-95 and 1998-99, the DOI did not receive $2.7 million[2] for MSAs and $2.3 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $6.0 million. The DOI's budgeted salary savings rate increased from 5.0 percent in 1993-94 to 6.3 percent in 1997-98 but returned to 5.0 percent in 1998-99.

Board of Equalization

The Board of Equalization (BOE) generally received MSAs as well as augmentations for specific increases in operating costs during the 1990s. Unfunded price increases were met by prioritizing or delaying projects, and implementing projects that resulted in cost savings or cost avoidance. The BOE reports that it is continually seeking ways to reduce its costs and increase efficiency. Efforts include the closure of over 20 field offices, increased automation and voluntary reductions of $7.6 million and 133 positions since 1992-93.

[2] DOF calculates that the DOI's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the DOI would have been provided under former budget policies, were $1.6 million.

Between 1994-95 and 1998-99, the BOE did not receive $0.4 million[3] for MSAs and $1.9 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $3.1 million. However, $1.5 million of this amount reflects reimbursements that did not materialize. Therefore, BOE's "real" excess salaries and wages savings resulting from excess vacancies were $1.6 million. The BOE shifted $0.8 million from personal services to OE&E during 1998-99 (via an approved category transfer for information technology services), and its budgeted salary savings rate increased from 3.8 percent in 1993-94 to 4.2 percent in 1998-99.

Department of Consumer Affairs

The Department of Consumer Affairs (DCA) reported that it redirected money from various OE&E line items into salaries and wages to meet the projected personal services needs of the Boards, Bureaus, and Divisions. With regard to price increases, the DCA reported that it redirected money from wherever it could or reduced selected administrative, licensing or enforcement services. Actions taken included foregoing publishing newsletters or law/regulation books, deferring the procurement of essential computer upgrades, delaying examination/licensing processes, eliminating critical item-writing workshops for exam development, reducing staff travel for investigators and inspectors, and stopping all enforcement case reviews/actions by the Attorney General or the Office of Administrative Hearings for all but the most egregious cases.

Between 1994-95 and 1998-99, the DCA did not receive $6.3 million for MSAs and $12.6 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $15 million. However, $1.9 million of that amount was due to reimbursements that did not materialize. Moreover, the remaining $13.1 million of "real" excess salaries and wages savings resulted primarily from delays in implementing the High Polluter Repair or Removal Program or from internal hiring freezes that were unrelated to MSA and price increase funding problems. The DCA's budgeted salary savings rate increased from 3.2 percent in 1993-94 to 3.4 percent in 1998-99.

Franchise Tax Board

The Franchise Tax Board (FTB) generally received funding for MSAs and price increases (partial MSA funding was received in 1998-99). The FTB also incurred unallocated reductions, although program impacts were mitigated by the shift of costs to fees, increased efficiencies and augmentations for revenue producing activities.

[3] This amount reflects the BOE's calculations of its MSA needs, minus the amount of MSA funding the BOE actually received during the five-year period.

Between 1994-95 and 1998-99, the FTB did not receive $2.7 million[4] for MSAs but was funded for all price increases. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $5.3 million. However, $2.4 million of this amount reflects reimbursements that did not materialize. Therefore, the FTB's "real" excess salaries and wages savings resulting from excess vacancies were $2.9 million. The FTB's budgeted salary savings rate increased from 3.8 percent in 1993-94 to 6.3 percent in 1995-96 but declined to 4.6 percent by 1998-99.

Department of General Services

The Department of General Services (DGS) reported that State budget policies relating to MSAs and price increases have forced it, over time, to increase its salary savings requirement. However, the DGS indicated that if one of its offices needs to fill positions to perform the workload requested by clients, the DGS submits a Budget Change Proposal or a Provision Letter to obtain the required funding and positions.

Between 1994-95 and 1998-99, the DGS did not receive $6.4 million for MSAs and $19.9 million for price increases because of State budget policies. However, the price increase amount is overstated because the DGS was able to obtain funding for price increases indirectly, through charges to other agencies for services that are funded from the Service Revolving Fund. During 1998-99, the DGS had excess salaries and wages savings resulting from excess vacancies of $6.3 million. The DGS's budgeted salary savings rate increased from 5.3 percent in 1993-94 to 6.3 percent in 1995-96 but declined to 5.6 percent by 1998-99.

Department of Transportation

The Department of Transportation (Caltrans) reports that lack of funding for MSAs and price increases was absorbed by reducing operating expenses. During the three-year period 1993-94 through 1996-96, Caltrans incurred reductions of $1.7 billion, due to declines in its revenue sources, which it met by operational efficiencies and program reductions. Caltrans claims it streamlined procedures and reduced project costs by delegating authority to lower-level staff. It consolidated maintenance crews and facilities, consolidated accounting and other administrative tasks, implemented labor-saving technology (e.g., computer-assisted design), reduced travel costs, expanded the use of video conferencing and reduced middle management. It also eliminated low-priority activities and deferred project planning until funding was available. Adverse effects of the funding reductions include decreased levels of maintenance and delayed delivery dates in capital outlay projects.

[4] This amount reflects the FTB's calculations of its MSA needs, minus the amount of MSA funding the FTB actually received during the five-year period.

Between 1994-95 and 1998-99, Caltrans did not receive $30.4 million[5] for MSAs and $27.9 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $89.8 million. However, nearly $33 million of this amount reflects federal funds and reimbursements that did not materialize. Therefore, Caltrans' "real" excess salaries and wages savings resulting from excess vacancies were $56.9 million. More than $30 million of these savings can be attributed to Caltrans' difficulty in recruiting to fill the large number of new positions it received during 1998-99. Caltrans shifted $305,000 from salaries and wages to OE&E during 1998-99, and its budgeted salary savings rate increased from 7.5 percent in 1993-94 to 9.2 percent in 1995-96 before falling to 6.0 percent in 1998-99.

California Highway Patrol

The California Highway Patrol (CHP) reports that funding constraints led to 500 positions being unfunded, which caused reduced services to the public. Funding for these positions was restored over a multi-year period beginning in 1994-95. Unfunded increases in workers' compensation (in the late 1980s and early 1990s) were covered by holding vacant 106 officer positions, which were eventually abolished. The CHP has routinely imposed savings requirements on its operating expenses and equipment purchases in order to meet various unfunded obligations. For example, purchases of non-critical equipment were deferred, travel and overtime were constrained, and training that is not job-required has been eliminated. The CHP believes that adverse consequences will result if State budget polices relating to MSAs and price increases do not change.

If we assume that none of the funding related to the 500 positions mentioned above was intended to address MSA and price increase needs between 1994-95 and 1998-99, the CHP did not receive $15.1 million for MSAs and $1.3 million for price increases during the period because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $7.1 million. Therefore, the lack of MSA funding during this period had no net fiscal impact on the CHP. During 1998-99, the CHP had excess salaries and wages savings of $3.2 million. About $0.4 million of this was reimbursements that failed to materialize. The CHP's budgeted salary savings rate increased from 2.5 percent in 1993-94 to 3.3 percent in 1998-99.

[5] This amount reflects Caltrans' calculations of its MSA needs, minus the amount of MSA funding Caltrans actually received during the five-year period.

Department of Motor Vehicles

The Department of Motor Vehicles reports that it received price increases for the items that most affect its operating expenses, i.e., postage, license plates, tabs and stickers, and photography. It also received partial funding for MSAs during five of the past eight years. The DMV reports that the lack of full funding for price increases and other funding constraints have required it to defer projects and purchases (e.g., automobiles, license plates, postage) as well as maintenance and special repairs. The DMV notes that is was required to reduce expenditures in 1996-97 by $3.2 million due to a shortfall in the Motor Vehicle Account, and that this reduction is still unallocated in the DMV's budget. The DMV reports that it evaluates its fiscal situation quarterly and stays within its budget by slowing down hiring. The DMV reports that, overall, funding constraints have led to a reduction in services to the public.

Between 1994-95 and 1998-99, the DMV did not receive $4.8 million[6] for MSAs and $6.9 million for price increases because of State budget policies. During 1998-99, the DMV had net excess salaries and wages savings resulting from excess vacancies of $2.6 million. The DMV shifted $268,000 from salaries and wages to OE&E during 1998-99, and its budgeted salary savings rate increased from 5.0 percent in 1993-94 to 6.5 percent in 1998-99.

California Department of Forestry and Fire Protection

The California Department of Forestry and Fire Protection (CDF) reported that it has held vacant a variety of administrative positions statewide in lieu of holding positions vacant in direct fire suppression activities to help offset the loss of buying power caused by the lack of price increases. In January 1994, the CDF underwent a reorganization to reduce overhead and management and redirected resources to critical field operations. The CDF claims that, as a result of State policy relating to price increases, its purchasing power has been reduced by 40 percent since 1988-89 and that its field units selectively leave positions vacant to help offset the loss of buying power.

Between 1994-95 and 1998-99, the CDF did not receive $1.9 million for MSAs and $4.5 million for price increases because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $1.6 million. Therefore, the lack of MSA funding during this period had no net fiscal impact on the CDF. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $3.5 million. However, the CDF also had $10.5 million of budgeted salaries and wages funds that did not materialize because of shortfalls in reimbursements and federal funds. Therefore, it had no "real" excess salaries and wages from excess vacancies and actually

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[6] DOF calculates that the DMV's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the DMV would have been provided under former budget policies, were $3.5 million.

over-spent its authorized salaries and wages from non-reimbursable funding sources. The CDF's budgeted salary savings rate decreased from 3.2 percent in 1993-94 to 2.3 percent in 1998-99.

Department of Fish and Game

The Department of Fish and Game (DFG) has made periodic adjustments to operating expenses, including a 1995-96 adjustment to eliminate 12.5 positions to increase operating expenses for unfunded and under-funded activities. However, the State's budget policies relating to MSAs and price increases generally has forced the DFG to increase its salary savings. In 1997-98, a series of budget change proposals were approved which increased operating expenses for field wardens and biologists. These actions resulted in an increase of $3,000 to $4,000 per position to make up for lost purchasing power, as well as funds for deferred replacement equipment and maintenance.

Between 1994-95 and 1998-99, the DFG did not receive $2.8 million[7] for MSAs and did not receive $2.6 million for price increases because of State budget policies. During 1998-99, the DFG had excess salaries and wages savings resulting from excess vacancies of $3.7 million. However, $1.5 million of this amount reflects reimbursements and special fund revenue that did not materialize. Therefore, the DFG's "real" excess salaries and wages savings resulting from excess vacancies were $2.2 million. The DFG's budgeted salary savings rate changed little from 1993-94 to 1998-99 and was 7.0 percent in both years.

Department of Parks and Recreation

The Department of Parks and Recreation (DPR) has coped with the lack of MSA and price adjustments by holding positions vacant for extended periods of time or holding a greater number of positions vacant for shorter times. In 1992, through a reorganization that eliminated regional offices, the Department also eliminated almost 200 permanent positions. The DPR also has deferred equipment replacement or needed maintenance projects, creating a huge backlog of deferred maintenance projects. The DPR recently estimated its deferred maintenance needs at $274 million.

Between 1994-95 and 1998-99, the DPR did not receive $2.2 million[8] for MSAs and $4.9 million for price increases because of State budget policies. During 1998-99, it had no excess salaries and wages savings resulting from excess vacancies. The DPR over-spent its authorized salaries and wages in three of the five years. The DPR's budgeted salary savings rate increased from 4.3 percent in 1993-94 to 6.6 percent in 1998-99.

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[7] DOF calculates that the DFG's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the DFG would have been provided under former budget policies, were $1.1 million.
[8] DOF calculates that the DPR's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the DPR would have been provided under former budget policies, were $873,000.

Department of Water Resources

The Department of Water Resources (DWR) reports that it has reduced its General Fund operating expenses and held some positions vacant to offset the unfunded costs resulting from the State's budget policies relating to MSAs and price increases. The programmatic consequences of these actions have been a lower level of assistance to local agencies on water-related matters, fewer resources being devoted to statewide water planning and data collection efforts, and, to a lesser extent, a reduction in the public safety efforts of Flood Management and Dam Safety inspections.

Between 1994-95 and 1998-99, the DWR did not receive \$5.8 million[9] for MSAs and \$5.1 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of \$5.8 million. However, \$1.1 million of this amount reflects federal funds and reimbursements that did not materialize. Therefore, the DWR's "real" excess salaries and wages savings resulting from excess vacancies were \$4.7 million. The DWR's salary savings rate increased from 4.3 percent in 1993-94 to 4.8 percent in 1998-99.

Air Resources Board

To cover unfunded MSAs and price increases, the Air Resources Board (ARB) reduced operating expenses by curtailing and deferring low-priority contract, travel and equipment expenditures. The ARB also achieved some efficiencies, such as reducing its data processing expenses by reducing its dependence on the Teale Data Center and doing more of its data processing in-house. It also eliminated some low priority activities and postponed or phased in other activities.

Between 1994-95 and 1998-99, the ARB did not receive \$2.6 million[10] for MSAs and \$1.9 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of \$0.5 million but over-spent its authorized salaries and wages in four of the last five years. The ARB shifted \$512,000 from salaries and wages and an additional \$1 million from benefits or special items of expense to OE&E during 1998-99. Its budgeted salary savings rate decreased from 4.6 percent in 1993-94 to 4.0 percent in 1998-99.

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[9] DOF calculates that the DWR's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the DWR would have been provided under former budget policies, were \$7.1 million.

[10] DOF calculates that the ARB's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the ARB would have been provided under former budget policies, were \$2.3 million.

State Water Resources Control Board

The State Water Resources Control Board (SWRCB) reported reducing positions from its budget to pay for unfunded increases in personnel costs such as MSAs. The SWRCB reported that it reduced its budget by 32.3 positions in 1993-94, by 25.8 positions in 1994-95 and 30.2 positions in 1996-97. The SWRCB also reported that it funded price increases by shifting personal services dollars to operating expenses and equipment to address unmet rent, information technology and other support costs.

Between 1994-95 and 1998-99, the SWRCB did not receive $2.1 million for MSAs and $18.6 million for price increases because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $185,000. Therefore, the lack of MSA funding during this period had no net fiscal impact on the SWRCB. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $6.3 million. However, $3.1 million of this amount reflects federal funds, reimbursements, and other funds that did not materialize. Therefore, the SWRCB's "real" excess salaries and wages savings resulting from excess vacancies were $3.2 million. The SWRCB's budgeted salary savings rate decreased from 6.1 percent in 1993-94 to 4.2 percent in 1998-99.

Department of Toxic Substances Control

The Department of Toxic Substances Control (DTSC) reported taking a variety of actions to address revenue shortfalls, including personnel reductions, reducing the funding it provided to other State agencies and, in 1998-99, shifting $1.4 million from statewide support to indirect costs assessed to individual programs to pay for increased facilities operations and other uncompensated OE&E expenses. The DTSC reported that its OE&E expenditures per employee declined from $4,000 in 1989-90 to $2,000 in 1998-99. These reductions have prevented the DTSC from purchasing basic office equipment and reduced its training, which is needed to keep staff current and knowledgeable with latest information.

Between 1994-95 and 1998-99, the DTSC did not receive $3.3 million[11] for MSAs and $0.8 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $5.2 million. However, $2.3 million of this amount reflects federal funds and reimbursements that did not materialize. Therefore, the DTSC's "real" excess salaries and wages savings resulting from excess vacancies were $2.9 million. The DTSC's budgeted salary savings rate decreased from 5.6 percent in 1993-94 to 4.1 percent in 1998-99.

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[11] DOF calculates that the DTSC's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the DTSC would have been provided under former budget policies, were $4.2 million.

Department of Health Services

The Department of Health Services (DHS) reports that funding constraints led to a large number of unfunded positions, 376.5 of which were eliminated by the Legislature in 1998-99. Significant shortfalls in operating expenses were only partially offset by spending reductions in discretionary items (e.g., travel, contracts, general expense), which required the DHS to hold positions vacant. The DHS emphasizes that funding shortfalls in specific programs or funding sources must be considered, not just funding shortfalls in the department as a whole. For example, a revenue shortfall in a special fund may cause an increase in the General Fund share of overhead, forcing other reductions in General Fund costs. On the other hand, in a General Fund matching program, a reduction in General Fund resources could cause a reversion in another funding source.

Between 1994-95 and 1998-99, the DHS did not receive $4.1 million for MSAs and $6.9 million for price increases because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $10.6 million. Therefore, the lack of MSA funding during this period had no net fiscal impact on the DHS. During 1998-99, the DHS had excess salaries and wages savings resulting from excess vacancies of $14.9 million. However, $1.6 million of this amount reflects reimbursements that did not materialize. Therefore, the DHS's "real" excess salaries and wages savings resulting from excess vacancies were $13.3 million. The DHS's budgeted salary savings rate decreased from 10.2 percent in 1993-94 to 5.7 percent in 1998-99, although it reached 13.0 percent in 1997-98. The decrease in the rate between 1997-98 and 1998-99 was the result of an $18 million reduction to the DHS's salary savings, which accompanied the elimination of 376.5 unfunded positions.

Department of Developmental Services

The Department of Developmental Services (DDS) reports that State funding constraints in the 1990s prevented it from increasing its staffing to meet federal legislation enacted in the late 1980s, and unallocated reductions compounded the problem by forcing the DDS to hold existing positions vacant. As a result, patient care was adversely affected. The Agnews developmental center was decertified (in April 1999) and is losing $2 million in federal funding per month. Sanctions were imposed at three other developmental centers (i.e., loss of federal funding for new patients) but were later lifted at two of them due to the staffing augmentations beginning in 1998-99. During this period, the developmental centers achieved operating efficiencies by centralizing accounting functions, implementing a computerized system for doctors' orders and patient scheduling, and creating a centralized packaging plant for high-use drugs. The shortfall in operating expenses at the developmental centers accumulated to $13 million, but was restored in recent budget augmentations. At headquarters, unallocated reductions led the DDS to reduce its audit staff from 13 to three, which, DDS claims, resulted in inadequate fiscal oversight of the regional centers and related service providers. Following a 1997 review, the federal government required the DDS to increase its auditing staff. The DDS also reports that to meet operating expense funding shortfalls, purchases are deferred and savings from vacant positions are used to replace computers and fund other critical needs.

Between 1994-95 and 1998-99, the DDS did not receive $19.3 million for MSAs because of State budget policies. However, the DDS received $7.2 million for salary savings relief in 1996-97, which may have offset some of these costs. Moreover, funding for all MSA costs incurred by the developmental centers during this period is being provided through a phased, three-year augmentation to the DDS's budget that began in 1998-99. Price increases provided under the standard budget formula were fully funded for the developmental centers during that period. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $4.7 million. About $294,000 of this was federal funds or reimbursements that did not materialize. The DDS shifted $5.5 million from personal services to OE&E during 1998-99, and its budgeted salary savings rate decreased from 6.4 percent in 1993-94 to 5.1 percent in 1998-99.

Department of Mental Health

The Department of Mental Health (DMH) notes that the lack of price increases has left it under-funded in operating expenses, especially for food, utilities, drugs and outside medical care costs. Positions are sometimes left vacant to generate additional funds for these critical operating needs. The DMH also notes that it does not have sufficient funds to conduct adequate maintenance or special repairs to its aging facilities. The headquarters site was able to reduce facilities costs by installing modular furniture. The hospitals continually try to maximize resources, such as with volume purchase of drugs. However, newer and more costly drugs are continually introduced and consume the savings. The DMH notes that as a result of the 1992-93 unallocated reduction, it decreased the psychiatric technician training program at Atascadero from 100 students per year to 15, though the number has since increased to 45. This level is inadequate, as there is currently a need for 105 psychiatric technicians at Atascadero.

Between 1994-95 and 1998-99, the DMH did not receive $8.1 million for MSAs and $6 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $9.9 million. About $770,000 of this was federal funds or reimbursements that did not materialize. The DMH shifted $9.1 million from salaries and wages and $7.7 million from benefits to OE&E during 1998-99, and its budgeted salary savings rate decreased from 5.1 percent in 1993-94 to 3.6 percent in 1998-99.

Employment Development Department

The Employment Development Department (EDD) has eliminated positions, temporarily held positions vacant and made continuous efforts to become more efficient through several major automation efforts and elimination of inefficient or low priority operations. The EDD funded its Y2K efforts, for example, by holding positions vacant. The EDD believes that it has met program workload requirements with minimal impact on client services. The use of permanent intermittent staff, which helps the EDD cope with position vacancies, also results in salaries and wages savings that help fund operating expense needs.

Between 1994-95 and 1998-99, the EDD did not receive $8.6 million[12] for MSAs and $3.2 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $33.7 million. However, about $12.7 million of this was due to federal funds or reimbursements that did not materialize. Therefore, the "real" excess salaries and wages savings resulting from excess vacancies were $21 million. The EDD shifted $21 million from salaries and wages and $18.9 million from benefits and special items of expense to OE&E during 1998-99. Its budgeted salary savings rate increased from 3.5 percent in 1993-94 to 5.0 percent in 1998-99.

Department of Rehabilitation

The Department of Rehabilitation (DOR) reports that funding constraints have caused higher caseloads for counselors, but necessary services to clients have not been affected. The DOR has restrained operating expenses by imposing freezes on general expense and equipment purchases. The DOR also achieved significant savings in June 1998 by relocating to a less expensive facility.

Between 1994-95 and 1998-99, the DOR did not receive $2.2 million[13] for MSAs and $2.3 million for price increases because of State budget policies. During 1998-99, it had no excess salaries and wages savings resulting from excess vacancies. The DOR over-spent its authorized salaries and wages in two of the five years. The DOR's budgeted salary savings rate increased from 5.7 percent in 1993-94 to 11.5 percent in 1994-95 due to absorption of the 3 percent state salary increase and changes in federal requirements for serving clients. Since 1994-95, the DOR's budgeted salary savings rate has decreased to 10.2 percent.

[12] DOF calculates that the EDD's unfunded MSA needs over the entire five-year period, as opposed to what the EDD would have been provided under former budget policies, were $13.5 million.
[13] DOF calculates that the DOR's unfunded MSA needs over the entire five-year period, as opposed to what the DOR would have been provided under former budget policies, were $5.4 million.

Department of Social Services

During the 1990s, the Department of Social Services (DSS) responded to funding reductions and shortfalls by eliminating 585.9 positions and making numerous other reductions. Examples include: reducing overtime, reducing operating expenses in numerous areas, realigning expenditures to increase the share borne by other funds, settling more legal cases to reduce attorney costs, reducing welfare fraud investigations and foster care activities to minimum federal requirements, reducing monitoring of licensed facilities, and reducing administrative staff. There are still some reductions that remain unallocated and are met by holding positions vacant.

Between 1994-95 and 1998-99, the DSS did not receive $6.2 million[14] for MSAs and $1.9 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $8.7 million. About $470,000 of this was due to federal funds and reimbursements that did not materialize. The DSS shifted $3.4 million from salaries and wages to OE&E during 1998-99, and its budgeted salary savings rate in both 1993-94 and 1998-99 was 5.4 percent.

California Department of Corrections

From 1994-95 through 1999-00, the California Department of Corrections (CDC) received 75 percent of the funding it requested for MSAs but less than 2 percent of the amount requested for price increase. The CDC's latest unallocated reduction occurred in 1997-98, and $10 million of that amount still remains unallocated. Because of the budget policies, the CDC has an overall 4.9 percent salary savings requirement, although the salary savings rate for posted positions at individual institutions is determined by a collectively-bargained "institutional vacancy plan." The CDC reports that it has eliminated positions, imposed hiring freezes and reduced operating expenses, especially at headquarters. The CDC also has submitted deficiency requests to address its funding shortfalls.

Between 1994-95 and 1998-99, the CDC did not receive $36.1 million[15] for MSAs and $61.6 million for price increases because of State budget policies. During 1998-99, it had no excess salaries and wages savings resulting from excess vacancies. The CDC over-spent its authorized salaries and wages in two of the five years. The CDC's budgeted salary savings rate increased from 4.2 percent in 1993-94 to 5.2 percent in 1996-97 before declining to 3.4 percent in 1998-99.

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[14] DOF calculates that the DSS's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the DSS would have been provided under former budget policies, were $3.9 million.

[15] This amount reflects the CDC's calculations of its MSA needs, minus the amount of MSA funding the CDC actually received during the five-year period.

California Youth Authority

The California Youth Authority (CYA) maintains that its options for coping with funding reductions are limited, because posted positions in the institutions must be covered. Non-posted positions are frequently left vacant to generate savings unless there is a health or safety concern. Specific steps taken include deferring facilities maintenance and special repairs, reducing utility costs, reducing inventories (e.g., clothing), consolidating food preparation and delivery, purchasing used vehicles and using ward labor. The CYA also consolidated and closed offices, increased caseload levels for parole officers, reduced counselor and janitorial positions, and modified various staffing patterns. Programmatic consequences include reduced treatment services to wards. The CYA was found in violation of State and federal law for providing inadequate services to wards who need special education.

Between 1994-95 and 1998-99, the CYA did not receive $7.1 million[16] for MSAs and $5.3 million for price increases because of State budget policies. During 1998-99, it had no excess salaries and wages savings resulting from excess vacancies. The CYA over-spent its authorized salaries and wages in three of the five years. The CYA's shifted $3 million from benefits to OE&E during 1998-99, and its budgeted salary savings rate decreased from 4.2 percent in 1993-94 to 3.3 percent in 1996-97, as population fell, before increasing to 5.1 percent in 1998-99.

California Department of Education

The California Department of Education (CDE) reported that unfunded price increases had severe adverse effects on the State Special Schools. Failure to fund price increases caused the Schools to absorb the increased cost of instructional materials, utilities and building maintenance by keeping positions vacant. At CDE headquarters, the CDE coped with a series of budget reductions between 1989-90 and 1998-99 through a combination of actions, including the elimination of positions, reducing discretionary expenditures such as travel and contracting, and selective shifting of funding sources. The costs of MSAs and price increases were factored into these reductions. Two major consequences of the reductions were the discontinuance of many services to school districts and delays in implementing new initiatives.

Between 1994-95 and 1998-99, the CDE did not receive $1.4 million for MSAs and $1.7 million for price increases because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $0.8 million. Therefore, the lack of MSA funding during this period had no net fiscal impact on the CDE.

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[16] DOF calculates that the CYA's unfunded MSA <u>needs</u> over the entire five-year period, as opposed to what the CYA would have been provided under former budget policies, were $11.0 million.

During 1998-99, the CDE had excess salaries and wages savings resulting from excess vacancies of $8.6 million, which was partly related to funds vetoed from the 1998-99 Budget Act.[17] The CDE shifted $8.3 million from personal services to OE&E during 1998-99. Of that amount, $4.4 million was spent for personal services contracts for staff who worked for the CDE during 1998-99. The CDE's budgeted salary savings rate decreased from 6.8 percent in 1993-94 to 5.0 percent in 1998-99.

Department of Industrial Relations

To compensate for unfunded price increases and unfunded MSAs, the Department of Industrial Relations (DIR) eliminated some positions but held others vacant. Some unallocated reductions continue to be unallocated and have increased the department's salary savings. The DIR reported that the programmatic consequences of holding positions vacant were a decreased level of service to the public, including workers waiting longer for resolutions of wage claims, Division of Occupational Safety and Health inspections not being completed quickly, and workers' compensation trials and hearings being delayed.

Between 1994-95 and 1998-99, the DIR did not receive $1.9 million for MSAs and $3.4 million for price increases because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $1 million. Therefore, the lack of MSA funding during this period had no net fiscal impact on the DIR. In 1995-96, the DIR shifted $4.0 million in the Division of Workers' Compensation from salaries and wages to OE&E on a onetime basis. In 1996-97, this shift was made permanent, and the Division of Workers' Compensation received an additional $1 million for operating expenses. During 1998-99, the DIR had excess salaries and wages savings resulting from excess vacancies of $8.3 million. Of this, $290,000 reflects reimbursements and federal funds that failed to materialize. The DIR shifted $4.0 million from salaries and wages to OE&E during 1998-99. The DIR's budgeted salary savings rate decreased from 6.3 percent in 1993-94 to 5.3 percent in 1998-99.

Department of Food and Agriculture

The Department of Food and Agriculture (DFA) reports that it has taken a variety of steps, including elimination of positions and programs. Managers were usually given flexibility to either keep positions vacant or reduce discretionary operating costs. Some unfunded positions may still be established. As a result of the reductions, services were reduced or

[17] There was a veto of $8 million in the 1998-99 Budget Act. The 1998-99 mid-year estimate of expenditures reflected $5 million as a reduction to operating expenses and $3 million as funding to be restored in pending legislation. Uncertainty regarding the fate of the legislation (it was eventually enacted late in the fiscal year) led the CDE to achieve the full $8 million in reductions, which were largely in personal services.

eliminated. For example, the Pest Prevention Program eliminated surveys to identify pest infestations. Subsequently, when the imported red fire ant was found, the DFA determined that it had already been in the State for five to seven years. The current eradication program is more costly than would have been the case had the pest infestation been documented earlier.

Between 1994-95 and 1998-99, the DFA did not receive $2.1 million for MSAs and $4.7 million for price increases because of State budget policies. However, our calculations show that the net of all position changes, including salaries and wages changes from positions reverting to the bottom step of the salary schedules, in the department's Schedule 7A between 1994-95 and 1998-99 produced a net *savings* to the department of $1.4 million. Therefore, the lack of MSA funding during this period had no net fiscal impact on the DFA. During 1998-99, the DFA had excess salaries and wages savings resulting from excess vacancies of $4.5 million. However, virtually all of this was due to federal funds or reimbursements that did not materialize or to budgeted continuous appropriation funds that were not used. Consequently, the DFA had no "real" excess salaries and wages savings during 1998-99. The DFA's budgeted salary savings rate increased from 5.0 percent in 1993-94 to 5.2 percent in 1998-99.

Department of Veterans Affairs

The Department of Veterans Affairs (DVA) reported that it reduced 53.0 positions and $1 million from its 1991-92 budget, and 143.8 positions and $3.9 million from its 1992-93 budget to compensate for unallocated reductions. Since then, the DVA reports, it has deferred infrastructure needs and outsourced some services because of staff shortages. It also claims that resident quality of life in the Veterans' Homes was affected due to its offering fewer activities to the residents.

Between 1994-95 and 1998-99, the DVA did not receive $2.9 million[18] for MSAs and $1.1 million for price increases because of State budget policies. During 1998-99, it had excess salaries and wages savings resulting from excess vacancies of $2.1 million. The DVA shifted $953,000 from personal services to OE&E during 1998-99, and its budgeted salary savings rate increased from 4.3 percent in 1993-94 to 5.0 percent in 1998-99.

[18] DOF calculates that the DVA's unfunded MSA needs over the entire five-year period, as opposed to what the DVA would have been provided under former budget policies, were $306,000.